

**CITY OF WOODLAND**  
**Cowlitz County, Washington**  
**January 1, 1992 Through December 31, 1993**

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**Schedule Of Findings**

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1. The City Should Establish And Strengthen Internal Controls

During our audit of the city's internal controls, we found the following material weaknesses:

- a. Accounting Records Not Current - At the inception of our audit on September 15, 1994, we noted that the clerk/treasurer's department had failed to reconcile or post accounting records since June 30, 1994. Because no cash activity had been posted to the accounting records during this period, the cash position and budget status of the individual funds remained unknown. In spite of this condition, the city continued to issue claims and payroll warrants. Current knowledge of the financial position of each fund is imperative to ensure that the city is operated in a fiscally responsible manner.
- b. Accounting Expertise Lacking - The clerk/treasurer did not possess a technical or working knowledge of the accounting processes under his control and, accordingly, had placed a low priority on fiscal matters. Knowledge of the accounting processes is mandatory to ensure that the city is operated in a fiscally responsible manner.
- c. Poor Segregation Of Fiscal Duties - The city has failed to establish adequate internal controls because proper segregation of duties do not exist within various departments. The following examples detail the poor internal controls:
  - The deputy clerk/treasurer performs most aspects of the payroll, voucher, investment, and banking activities.
  - The utility clerk performs all aspects of the utility accounting system including billing, receipting, posting, reconciling, and adjusting.
  - The court clerk performs most aspects of the municipal court activities including receipting, accounts receivable maintenance, and checking account maintenance.

Segregation of these duties is critical in preventing potential fraud or theft.

- d. Accounts Receivable Collection Effort Not Adequate - The city has no established utility collection procedures in place. When a utility account is not paid the services are cut off. However, if the account remains delinquent, it is written-off with no further attempt at collection. All bad debt accounts written-off should be reviewed and approved by the council. When coupled with the poor duty segregation cited above, the risk of fraud increases substantially.
- e. Deposits Not Made Timely - The municipal court clerk deposits funds as seldom

as twice a month. More frequent deposits will help to minimize the risk of potential fraud or theft.

Many of these internal control weaknesses developed over the past two years. The clerk/treasurer was not involved in the daily accounting processes and did not review the work of his staff.

Collectively, these conditions indicate a significant and pervasive control problem. We were able, however, to give an opinion that the financial statements were fairly stated because we allowed the clerk/treasurer to prepare corrected statements.

We recommend city officials take appropriate action to eliminate these internal control weaknesses.

2. The City Should Maintain Funds With Positive Cash Balances

At December 31, 1992 and 1993, the city had funds with deficit cash balances as indicated below:

<u>Fund</u>	<u>Cash Balance</u>	<u>Invest Balance</u>
<u>1992</u>		
309 Horseshoe Lake Study	\$ (16,668.24)	\$ 0
<u>1993</u>		
301 CPR General	(574.90)	100,000
306 Sewer Plant Improvements	(127,710.50)	50,000
308 Comprehensive Plan Update	(4,648.40)	0
309 Horseshoe Lake Study	(20,618.08)	0
311 E. Scott Ave Reconstruction	(244,426.90)	0
312 3rd Street Reconstruction	(72,996.50)	0
403 CERB Feasibility	(29,000.00)	0

At the audit date of September 20, 1994, the city continued to have funds with deficit cash balances as follows:

<u>Fund</u>	<u>Cash Balance</u>	<u>Invest Balance</u>
104 Street Fund	\$ (95,940.51)	\$25,000
201 1986 Street Loan	(2,057.20)	0
221 1989 PWTF Loan	(12,879.34)	0
341 LID Road Project	(7,786.93)	0
306 Sewer Plant Improvements	(39,440.81)	50,000
308 Comprehensive Plan Update	(337.65)	0
311 E. Scott Ave Reconstruction	(114,357.86)	0
403 CERB Feasibility	(4,630.00)	0

The city failed to pursue resolution of the negative cash balances with short term financing arrangements and continued to issue warrants from all funds without knowledge or regard of the individual fund balances.

Operating funds with deficit cash balances essentially constitutes an unauthorized, interest free loan to those funds from solvent funds. This violation is compounded in those funds that simultaneously maintain investments and negative cash balances.

In addition to representing a material operational monitoring weakness, this situation constitutes a violation of RCW 43.09.210 which states in part:

. . . no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

The above conditions occurred for the following reasons:

- The clerk/treasurer failed to ensure that all funds maintained positive cash positions.
- The clerk/treasurer failed to produce current and accurate financial reports for management use.

- The mayor and council failed to demand that financing needs were being properly monitored and timely reported.

We recommend the city comply with state law by taking appropriate measures to eliminate deficit cash balances such as making properly authorized loans from solvent funds.

We further recommend that staff be trained and required to monitor and report financial activity to ensure that this situation does not occur in the future.

3. The City Should Comply With Findings And Regulations Of The Public Employees Retirement System (PERS)

In 1989, the Department of Retirement Systems (DRS) reported a system violation to the City of Woodland covering the years 1984 through 1988. The DRS report noted that a PERS I retiree has been working in a parks department seasonal eligible position, but had not been brought back into retirement membership.

RCW 41.40.010 Definitions states in part:

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof.

RCW 41.40.150 also states in part:

(5)(a) The recipient of a retirement allowance who is employed in an eligible position . . . shall be considered to have terminated his or her retirement status and shall immediately become a member of the retirement system with the status of membership the member held as of the date of retirement. Retirement benefits shall be suspended during the period of eligible employment and the individual shall make contributions and receive membership credit.

RCW 41.50.130 continues:

(2) Except in the case of actual fraud, in the case of overpayments to a member or beneficiary, the benefits shall be adjusted to reflect only the amount of overpayments made within three years of discovery of the error, notwithstanding any provision to the contrary in chapter 4.16 RCW.

(3)(a) The employer shall elicit on a written form from all new employees as to their having been retired from a retirement system listed in RCW 41.50.030.

(b) In the case of overpayments which result from the failure of an employer to report properly to the department the employment of a retiree from information received in subparagraph (a), the employer shall, upon receipt of a billing from the department, pay into the appropriate retirement system the amount of the overpayment plus interest as determined by the director. However, except in the case of actual employer fraud, the overpayments charged to the employer under this subsection shall not exceed five thousand dollars for each year of overpayments received by retiree. The retiree's benefits upon retirement shall not be reduced because of such overpayment except as necessary to recapture contributions required for periods of employment.

The violation was ultimately corrected in 1992 when the city paid \$15,573 to DRS.

In November 1994, DRS reassessed the situation for the same retiree for the period from 1989 through the present. DRS reported that the city continued to be in violation during the period January 1989 through May 1992 and requested the city pay an additional

\$21,677.

This situation occurred because the city:

- a. Hired a PERS I retiree for an eligible position.
- b. Did not require written evidence that the employee had terminated from retirement status.
- c. Failed to correct the situation after notification from DRS that this person needed to be re-enrolled in the retirement system.

Not reporting eligible retired employees to DRS results in an overpayment of pension payments to the retiree and an underpayment of contributions to DRS.

We recommend that the city pay the amount determined by DRS.

We further recommend that the city ensure they have no other instances of this problem by requiring written verification from all current and future employees that they are not receiving benefits from a state of Washington retirement system.

4. The City Should Limit Expenditures To Appropriations

During 1993, the city made expenditures in excess of approved appropriations as indicated below:

<u>Fund</u>	<u>Overexpenditures</u>
001 Current Expense	\$(67,531)
107 Hotel/Motel Tax	(750)
308 Comprehensive Plan Update	(1,270)
403 CERB Feasibility	(4,000)

Exceeding appropriations is contrary to the provisions of RCW 35A.33.125 which states in part:

. . . The Clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund . . . .

The clerk/treasurer allowed this condition to occur because he did not adequately monitor fund operations.

Allowing expenditures to exceed budget appropriations permits the unauthorized use of fund resources and negates the budget process.

We recommend that the city monitor its expenditures to ensure they do not exceed the budget appropriations authorized by the council.

5. The City Should Properly Record And Share Municipal Court Revenue

The city did not properly report and share failure to appear (FTA) fees with the state of Washington.

RCW 46.63.070 (5) requires a city's municipal court to assess a monetary penalty against anyone who fails to appear for a traffic infraction hearing.

RCW 3.50.100 states in part:

(1) . . . All fees, costs, fines, forfeitures and other money imposed by any municipal court for the violation of any municipal or town ordinances shall be collected by the court clerk and . . . shall be deposited with the city or town treasurer . . . .

(2) The city treasurer shall remit monthly thirty-two percent of the money received under this section . . . to the state treasurer.

The city did not share these revenues with the state because it considered the FTA penalties to be costs for providing services rather than fees.

The city generated FTA revenues for the period January 1991 through October 1994 as detailed below:

<u>Year</u>	<u>FTA</u>
1991	\$1,475
1992	1,515
1993	1,282
1994	<u>1,457</u>
Totals	<u>\$5,729</u>
Amount Due State	\$1,833

We recommend the city remit \$1,833 to the state of Washington for the period January 1991 through October 1994.

We further recommend that the city ensure that all future FTA fees are properly distributed.



6. The City Should Submit Timely And Accurate Financial Reports

The City of Woodland's 1992 and 1993 annual financial reports submitted to the Office of State Auditor were inaccurate and untimely. In addition, the 1992 and 1993 street reports submitted to the Department of Transportation were inaccurate. All of these reports required restatement because of numerous instances of the following conditions:

Financial Reports:

Actual amounts did not agree to the accounting records  
Budget amounts did not agree to the approved budgets

Street Reports:

Amounts did not agree to the accounting records  
Items recorded as revenues were not actual revenues  
Items recorded as expenditures were not actual expenditures  
Expenditures were included twice  
Capital expenditures were improperly reported

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized . . .

RCW 35.21.260 states:

The governing authority of each city and town on or before March 31st of each year shall submit such records and reports regarding street operations in the city or town to the secretary of transportation . . . to enable him to compile an annual report thereon.

These deficiencies resulted because the clerk-treasurer lacked the knowledge to properly prepare the financial reports.

Submission of inaccurate and untimely financial reports hinders the users of those reports. Users and their concerns include:

- a. City council which utilizes these reports as a management tool.
- b. The general public interested in reports on the cost of public services.
- c. The Washington State Legislature which utilizes the annual volume of published *Local Government Comparative Statistics* for municipalities pursuant to RCW 43.09.230.
- d. The Department of Transportation which utilizes the city street information for planning and possible funding.

- e. The Office of State Auditor's staff who note that inaccurate financial reports prolong audit work and correspondingly increase audit costs.

The city corrected their financial reports during the audit. The corrected reports are the basis of our opinion on the financial statements.

We recommend that the city adhere to statutory requirements by accurately preparing and timely filing future annual reports.

We further recommend that staff receive the necessary training to comply with reporting requirements.